

**EXCHANGE CLUB FAMILY CENTER, INC.
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
YEARS ENDED JUNE 30, 2005 AND 2004**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Exchange Club Family Center, Inc.

We have audited the accompanying statements of financial position (modified cash basis) of Exchange Club Family Center, Inc. (the "Organization") as of June 30, 2005 and 2004 and the related statements of activities (modified cash basis), functional expenses (modified cash basis) and cash flows (modified cash basis) for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 2, in 2005 the Organization adopted a policy of preparing its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The financial statements for 2004 have been restated on the modified cash basis of accounting adopted in 2005.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Exchange Club Family Center, Inc. as of June 30, 2005 and 2004, and the changes in its net assets and its cash flows for the years then ended, on the basis of accounting described in Note 3.

Blankenship CPA Group, PLLC

September 28, 2005

EXCHANGE CLUB FAMILY CENTER, INC.
STATEMENTS OF FINANCIAL POSITION
(MODIFIED CASH BASIS)
JUNE 30, 2005 AND 2004

ASSETS		2005	2004
Cash		\$ 72,701	\$ 24,412
Property and equipment, net		<u>596,887</u>	<u>604,685</u>
TOTAL ASSETS		<u><u>\$ 669,588</u></u>	<u><u>\$ 629,097</u></u>
LIABILITIES AND NET ASSETS			
LIABILITIES			
Mortgage payable		\$ 82,996	\$ -
Line of credit		<u>-</u>	<u>67,068</u>
Total Liabilities		<u>82,996</u>	<u>67,068</u>
NET ASSETS:			
Unrestricted		556,592	562,029
Temporarily restricted		<u>30,000</u>	<u>-</u>
Total Net Assets		<u>586,592</u>	<u>562,029</u>
TOTAL LIABILITIES AND NET ASSETS		<u><u>\$ 669,588</u></u>	<u><u>\$ 629,097</u></u>

The accompanying notes are an integral part of these financial statements.

EXCHANGE CLUB FAMILY CENTER, INC.
STATEMENTS OF ACTIVITIES
(MODIFIED CASH BASIS)
YEARS ENDED JUNE 30, 2005 AND 2004

	2005	2004
Changes in Unrestricted Net Assets		
Revenue and Support:		
Governmental grants	\$ 110,025	\$ 117,085
Program fees	90,073	114,434
Exchange Clubs	99,201	84,781
Government contracts	33,924	83,735
Businesses and foundations	75,116	52,070
Donated services	42,710	43,360
Wednesday's Child Benefit, (net of direct costs of \$26,367 and \$12,363 for 2005 and 2004, respectively)	50,627	42,848
United Way of Rutherford County	21,426	23,058
Individuals	8,349	28,606
Allocations from municipalities	32,500	17,000
Other special events, (net of direct costs of \$3,060 and \$3,243 for 2005 and 2004, respectively)	17,960	23,751
United Way of Middle Tennessee	87,840	86,657
Junior League of Nashville	5,000	5,000
Miscellaneous	4,336	3,610
Memorials and honorariums	1,580	1,191
Interest	478	54
	<hr/>	<hr/>
Total Unrestricted Revenues and Support	681,145	727,240
	<hr/>	<hr/>
Expenses:		
Program services	524,485	638,229
Supporting services:		
Management and general	112,089	131,921
Fundraising	50,008	72,793
	<hr/>	<hr/>
Total Expenses	686,582	842,943
	<hr/>	<hr/>
Decrease in Unrestricted Net Assets	(5,437)	(115,703)
	<hr/>	<hr/>
Changes in Temporarily Restricted Net Assets		
Contributions for Safe Exchange program	30,000	-
	<hr/>	<hr/>
Increase in Temporarily Restricted Net Assets	30,000	-
	<hr/>	<hr/>
Increase (decrease) in net assets	24,563	(115,703)
Net assets, beginning of year	562,029	677,732
	<hr/>	<hr/>
Net assets, end of year	<u>\$ 586,592</u>	<u>\$ 562,029</u>

The accompanying notes are an integral part of these financial statements.

EXCHANGE CLUB FAMILY CENTER, INC.
STATEMENT OF FUNCTIONAL EXPENSES
(MODIFIED CASH BASIS)
YEAR ENDED JUNE 30, 2005

	2005			Total
	Program Services	Supporting Services Management and General	Fund Raising	
Salaries	\$ 332,068	\$ 64,689	\$ 34,501	\$ 431,258
Employee benefits	23,440	4,566	2,435	30,441
Volunteer in-kind expenditures	34,849	356	356	35,561
Payroll taxes	21,073	4,105	2,189	27,367
 Total personnel costs	 411,430	 73,716	 39,481	 524,627
 Utilities and janitorial	 13,338	 3,984	 -	 17,322
Professional services	-	17,289	-	17,289
Insurance	12,898	2,513	1,340	16,751
Repairs and maintenance	12,479	2,431	1,297	16,207
Communications	10,923	2,128	1,135	14,186
Travel	11,267	2,113	704	14,084
Office supplies	8,288	1,615	861	10,764
Miscellaneous	5,909	1,478	-	7,387
Clients aid and lab materials	7,135	-	-	7,135
Interest	5,339	1,040	555	6,934
Staff training	3,095	172	172	3,439
Postage	1,979	206	386	2,571
Employee recruitment	1,634	318	170	2,122
Fundraising	-	-	1,657	1,657
Merchant service charges	1,431	-	159	1,590
Printing	1,150	119	224	1,493
Dues and subscriptions	1,053	205	109	1,367
Public awareness	956	-	285	1,241
 Total expenses before depreciation	 510,304	 109,327	 48,535	 668,166
Depreciation	14,181	2,762	1,473	18,416
 Total expenses	 <u>\$ 524,485</u>	 <u>\$ 112,089</u>	 <u>\$ 50,008</u>	 <u>\$ 686,582</u>

The accompanying notes are an integral part of these financial statements.

EXCHANGE CLUB FAMILY CENTER, INC.
STATEMENT OF FUNCTIONAL EXPENSES
(MODIFIED CASH BASIS)
YEAR ENDED JUNE 30, 2004

	2004			
	Program Services	Supporting Services		Total
		Management and General	Fund Raising	
Salaries	\$ 413,318	\$ 80,516	\$ 42,942	\$ 536,776
Employee benefits	36,458	7,102	3,788	47,348
Volunteer in-kind expenditures	39,024	2,168	2,168	43,360
Payroll taxes	28,845	5,619	2,997	37,461
				-
Total personnel costs	517,645	95,405	51,895	664,945
				-
Utilities and janitorial	14,013	4,186	-	18,199
Professional services	-	15,764	1,751	17,515
Insurance	2,282	445	237	2,964
Repairs and maintenance	9,977	1,944	1,036	12,957
Communications	12,082	2,354	1,255	15,691
Travel	17,072	3,326	1,774	22,172
Office supplies	12,754	2,485	1,325	16,564
Miscellaneous	3,500	682	364	4,546
Clients aid and lab materials	17,853	-	-	17,853
Interest	1,285	250	134	1,669
Staff training	4,458	868	463	5,789
Postage	1,773	184	345	2,302
Fundraising	-	-	9,213	9,213
Employee recruitment	989	193	102	1,284
Merchant service charges		-	-	-
Printing	1,877	195	366	2,438
Dues and subscriptions	1,692	330	175	2,197
Public awareness	1,987	-	593	2,580
				-
				-
Total expenses before depreciation	621,239	128,611	71,028	820,878
				-
Depreciation	16,990	3,310	1,765	22,065
Total expenses	<u>\$ 638,229</u>	<u>\$ 131,921</u>	<u>\$ 72,793</u>	<u>\$ 842,943</u>

The accompanying notes are an integral part of these financial statements.

EXCHANGE CLUB FAMILY CENTER, INC.
STATEMENTS OF CASH FLOWS
(MODIFIED CASH BASIS)
YEARS ENDED JUNE 30, 2005 AND 2004

	2005	2004
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 24,563	\$ (115,703)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	<u>18,416</u>	<u>22,065</u>
Net cash provided by (used in) operating activities	<u>42,979</u>	<u>(93,638)</u>
Cash flows from investing activities:		
Purchase of equipment and furniture	<u>(10,618)</u>	<u>(214)</u>
Net cash used in investing activities:	<u>(10,618)</u>	<u>(214)</u>
Cash flows from financing activities:		
Net borrowings (repayments) on line of credit	(67,068)	67,068
Net borrowings on mortgage	<u>82,996</u>	<u>-</u>
Net cash provided by financing activities	<u>15,928</u>	<u>67,068</u>
Net increase (decrease) in cash	48,289	(26,784)
Cash, beginning of year	<u>24,412</u>	<u>51,196</u>
Cash, end of year	<u><u>\$ 72,701</u></u>	<u><u>\$ 24,412</u></u>
Additional information:		
Interest paid during the year	<u><u>\$ 6,934</u></u>	<u><u>\$ 1,669</u></u>

The accompanying notes are an integral part of these financial statements.

EXCHANGE CLUB FAMILY CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
(MODIFIED CASH BASIS)
YEARS ENDED JUNE 30, 2005 AND 2004

NOTE 1 - ORGANIZATION AND NATURE OF ACTIVITIES

The Exchange Club Family Center, Inc. (the "Organization") is a private, not-for-profit agency licensed by the State of Tennessee as a Child Abuse Prevention agency. The mission of the Organization is to help prevent child abuse and neglect in Middle Tennessee through family support and by educating parents in how to create nurturing, safe environments where their children can thrive. Each year the agency serves over 15,000 individuals through Parent Education Classes, Lifeskills Training in elementary schools, Community Awareness Presentations, In-Home Family Preservation Services, Safe Exchanges between custodial and non-custodial parents for visits and Supervised Visits between children and a non-custodial parent or relative. Nine local Exchange Clubs associated with the National Exchange Clubs based in Toledo, Ohio support the Organization. This civic organization adopted child abuse prevention as its national service project in 1979 and the Nashville Organization was established in 1985. The Center is also supported by United Ways, State and local government grants, corporate and foundation funding and various fundraising activities of the Board of Directors and the local Exchange Clubs.

NOTE 2 - CHANGE IN BASIS OF ACCOUNTING

Prior to June 30, 2004, the Organization prepared its financial statements using accounting principles generally accepted in the United States of America. Beginning July 1, 2004, the Organization has elected to present its financial statements using the modified cash basis of accounting which is more fully described in Note 3. The financial statements for the year ending June 30, 2004 have been restated on the modified cash basis of accounting. Consequently, the beginning net assets at July 1, 2003 are approximately \$122,881 lower than the amount previously reported. The ending net assets as of June 30, 2004 are approximately \$116,215 lower than previously reported.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements are prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The principal differences from accounting principles generally accepted in the United States of America relate to revenues and expenses. Revenue and support is generally recognized when received rather than in the period earned or unconditionally promised. Expenses (other than depreciation) are recognized when paid rather than when the obligation is incurred or the expense is applicable.

EXCHANGE CLUB FAMILY CENTER, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
(MODIFIED CASH BASIS)
YEARS ENDED JUNE 30, 2005 AND 2004

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire during the year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions.

Donated Services and Materials

Various volunteers donate many hours to the Organization's program services and fundraising campaigns. These contributed services are reflected in the financial statements only when the services require specialized skills. Materials, prizes, and other assets received as donations are recorded and reflected in the accompanying financial statements at their estimated fair values at the date of the receipt.

Property and Equipment and Depreciation

It is the Organization's policy to capitalize all property and equipment over \$250. Property and equipment acquisitions are recorded at cost. Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted revenues unless the donor has restricted the donated asset to a specific purpose. When depreciable assets are disposed of, the cost and related accumulated depreciation are removed from the accounts, and any gain (except on trade-in) or loss is included in the statements of activities for the period. A gain on trade-in is applied to reduce the cost of the new acquisition. Depreciation is computed using the straight-line method over 20 to 40 years for buildings and improvements and 5 to 10 years for furniture, equipment, and software.

Advertising

The Organization's advertising is non-direct, and the costs are expensed as incurred. The Organization incurred \$1,241 and \$2,580 of advertising expense (classified as public awareness on the statements of functional expenses) in 2005 and 2004, respectively.

Income Taxes

The Organization is a not-for-profit corporation exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation.

Reclassifications

Certain prior year amounts have been reclassified to conform with current year presentation.

**EXCHANGE CLUB FAMILY CENTER, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
(MODIFIED CASH BASIS)
YEARS ENDED JUNE 30, 2005 AND 2004**

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and changes therein and the disclosures of commitments and contingencies. Actual results could differ from those estimates.

NOTE 4 - RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets consist of funding for Safe Exchange program. These funds amounted to \$30,000 as of June 30, 2005. There were no permanently restricted net assets as of June 30, 2005 and 2004.

NOTE 5 - DONATED SERVICES AND MATERIALS

The following donated services and materials contributions have been included in unrestricted revenues and expenses in the financial statements for the years ended December 31, 2005 and 2004:

	2005	2004
Included in donated services:		
Volunteer in-kind expenditures	\$ 35,560	\$ 43,360
Professional services	7,150	-
 Included in Wednesday's Child Benefit – silent auction items	 12,110	 -
	<u>\$ 54,820</u>	<u>\$ 43,360</u>

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	2005	2004
Land	\$ 124,887	\$ 124,887
Building and Improvements	594,087	594,087
Furniture and Equipment	96,897	91,279
Software	7,336	2,336
	<u>823,207</u>	<u>812,589</u>
 Accumulated depreciation	 (226,320)	 (207,904)
	<u>\$ 596,887</u>	<u>\$ 604,685</u>

Depreciation expense was \$18,416 and \$22,065 for 2005 and 2004, respectively.

EXCHANGE CLUB FAMILY CENTER, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
(MODIFIED CASH BASIS)
YEARS ENDED JUNE 30, 2005 AND 2004

NOTE 7 - LINE OF CREDIT / MORTGAGE PAYABLE

The Organization had a secured line of credit agreement with AmSouth Bank. The borrowing limit as of June 30, 2004 was \$100,000. The line carried interest at the bank's base rate (4.00% at June 30, 2004) and was collateralized by a first mortgage on the Thompson Lane property. On January 25, 2005, the line was converted to a mortgage on the Thompson Lane property. The terms on the mortgage call for principal and interest payments of \$751 per month with an interest rate of 7% and a maturity date of January 25, 2020.

Scheduled repayments on the mortgage are as follows:

Years ending June 30,	
2006	\$ 3,364
2007	3,607
2008	3,868
2009	4,147
2010	4,447
Thereafter	<u>63,563</u>
Total	<u>\$82,996</u>

NOTE 8 - COMMITMENTS

The Organization leases certain equipment under noncancelable operating leases, which have various expiration dates throughout the year. Future minimum lease payments under noncancelable leases as of June 30, 2005 are as follows:

Years ending June 30,	
2006	\$3,420
2007	2,115
2008	<u>280</u>
Total	<u>\$5,815</u>

NOTE 9 - RETIREMENT PLAN

Effective April 1, 2004, the Organization adopted a defined contribution 403(b) retirement plan. The plan allows employees meeting certain eligibility requirements to participate in the plan to the extent allowed under the Internal Revenue Code. The plan also provides for discretionary contributions by the Organization. Participants are immediately vested in their voluntary contributions plus related earnings; whereas, participants are vested in the Organization's contributions plus related earnings after two years of service. The Organization made no contributions to the plan during the years ended June 30, 2005 and 2004.

Effective July 1, 2005, the Organization ceased providing the 403(b) retirement plan. No additional employees may be eligible and no further contributions can be made by either existing participants or the Organization.

EXCHANGE CLUB FAMILY CENTER, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
(MODIFIED CASH BASIS)
YEARS ENDED JUNE 30, 2005 AND 2004

NOTE 10 - ENDOWMENT FUND

In December 1996, the Center created the Exchange Child Abuse Prevention Center Endowment Fund (the "Fund") at the Nashville Area Community Foundation, Inc. (the "Foundation"). The Center retains the right to make future contributions to the Fund and to suggest the manner in which income of the Fund is distributed to charitable organizations, including the Center, which meet the eligibility standards of the Foundation.

The Foundation has ultimate authority and control over all property of the Fund, including income derived therefrom, for use in conjunction with the charitable purposes of the Foundation, and, therefore, these assets are not included in the financial statements of the Center. The Fund will be charged an asset management fee by the Foundation equal to 0.4% of the current value of the Fund annually, payable quarterly in arrears.

Contributions since inception total \$10,000 as of June 30, 2005. Including realized and unrealized investment earnings, the market value of the Fund was \$22,386 and \$20,666 as of June 30, 2005 and 2004, respectively.